DRN-4816252

The complaint

Mr and Mrs S complain that Nationwide Building Society delayed considering their mortgage application. As a result they lost out on an interest rate product.

What happened

In July 2022, a mortgage broker, L, recommended that Mr and Mrs S should take a mortgage with Nationwide for £224,000 over 27 years with an interest rate of 3.39% fixed for three years. Mr and Mrs S wanted to repay their existing mortgage and raise additional funds for home improvements. Nationwide issued a decision in principle accepting the application that was valid until 21 October.

Between August and September, Mr and Mrs S provided documents that the lender needed to assess their application. On 16 September, Nationwide said the maximum it was prepared to lend was £217,500 – but it would need an explanation how Mr and Mrs S could complete their intended works on the lower amount. That information was passed to Nationwide on 20 September.

On 28 September, Nationwide asked for the same information from Mr and Mrs S again. It also asked L to complete a “material change” form. That information was supplied to Nationwide on 12 October. But it requested the same information again on 17 October. Nationwide did not reassess the application until 28 October, by which time the original rate had lapsed.

Between October and January 2023, a new application was explored. But Mr and Mrs S did not proceed. I understand Nationwide reduced the amount it was prepared to lend further.

Mr and Mrs S’s mortgage reverted to their lender’s standard variable rate (SVR) in January 2023. They then switched their existing borrowing of £177,150.81 to an interest rate of 4.97% fixed until 31 January 2028. They borrowed an additional £40,000 on an interest rate of 5.97% fixed until 31 January 2028. So their total borrowing was around £217,000.

Mr and Mrs S complain that they lost out on the interest rate they’d chosen because of delays by Nationwide.

I issued a provisional decision upholding the complaint. My provisional findings, which form part of this decision were:

There have been delays by both L and Nationwide during the application:

- *When Nationwide asked how Mr and Mrs S would be able to complete their planned works on 16 September, L responded within a few days. But Nationwide did not ask for a material change form until 28 September.*
- *L did not provide the material change form until 12 October.*
- *Nationwide requested information it already had from L on 17 October.*

- *Despite having all of the information needed to assess Mr and Mrs S's application on 12 October, Nationwide did not do so until 26 October, by which time the chosen interest rate had lapsed.*

I consider that it was delays by Nationwide that caused Mr and Mrs S's application to lapse. It had all of the information it needed to consider their application by 12 October. Due to a mistake, that information was initially overlooked. And there is no reasonable explanation why it took until 26 October for Nationwide to review the application – bearing in mind it had all of the information it needed and it knew that the application was due to lapse on 21 October.

Where a business has not acted fairly, we look to put the affected party in the position they would have been in had they been treated fairly. If Nationwide had acted fairly, I consider it would have assessed Mr and Mrs S's application by 21 October 2022. If it had done so, I see no reason why it would not have been approved. I say that as Nationwide approved the application when it looked at it on 26 October. It follows that Mr and Mrs S would have secured borrowing of £217,500 at an interest rate of 3.39% for three years. Nationwide has not put forward any persuasive evidence to show that it would not have approved the application and issued a mortgage offer had it considered the application by 21 October 2022.

Therefore, Nationwide should pay Mr and Mrs S the difference between what they will pay on their mortgage from the expiry of their previous fixed rate on 1 January 2023 until 1 January 2026 and what they would have paid had they taken a fixed rate with Nationwide at 3.39%. Where Mr and Mrs S have already made payments, Nationwide should also pay interest at 8% simple per year from the date any payment was made until date of settlement.

I note that the application fee on Mr and Mrs S's mortgage was £180 – that is less than the £999 they would have had to pay on the Nationwide mortgage. So Nationwide can deduct £819 from the total amount it pays Mr and Mrs S to settle this complaint.

I accept that Mr and Mrs S have been caused a great deal of distress and inconvenience as a result of this matter. They had the stress and worry of losing out on the rate they wanted along with the inconvenience of pursuing a fruitless application with Nationwide for around six months. Nationwide is not solely responsible for that – and I accept that there was volatility and increased demand in the mortgage market because of the impact of the mini budget. Mr and Mrs S have also had to pay higher mortgage payments than they should have each month for around 16 months at the time of writing this provisional decision.

Our guidelines say that an award of between £300 and £750 is suitable where the impact of a mistake has caused considerable distress, upset and worry and/or significant inconvenience that needs lot of extra effort to sort out, typically over many weeks or months. In the circumstances, I would usually make an award at the upper end of that – as the impact on Mr and Mrs S has continued while they have had to pay the higher amount.

Nationwide has already offered Mr and Mrs S £400 for any distress and inconvenience. I might have increased that award – but I have to take into account that Mr and Mrs S will receive the difference in payments upfront for around 18 months of the term of their fixed rate. There will be some benefit to them in that. If, for example they were to deposit that sum in a savings account and withdraw the difference in payments as they became due. In view of that I am not proposing that Nationwide should increase its offer of £400.

I proposed that Nationwide should:

- *Pay Mr and Mrs S the difference between what they have paid to their mortgage and* *what they would have paid had they had a fixed interest rate of 3.39% from 1 January 2023 until date of settlement.*

- *Pay interest at 8% simple per year on the above amounts from the date each payment was made to date of settlement. If Nationwide considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Mr and Mrs S how much it's taken off. It should also give Mr and Mrs S a tax deduction certificate if they ask for one, so they can reclaim the tax from HM Revenue & Customs if appropriate.*

- *Pay Mr and Mrs S upfront the difference between what they will pay on their mortgage and what they would have paid had they had a fixed interest rate of 3.39% from date of settlement until 1 January 2026.*

- *Pay Mr and Mrs S £400.*

- *Deduct £819 from the total amount.*

Both Mr and Mrs S and Nationwide accepted my provisional. Mr and Mrs S pointed out the interest rate they are paying on the existing borrowing on their mortgage is 4.97%.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

As both sides have accepted my provisional decision, I see no reason to change the findings I made in my provisional decision as set out above. I accept that the interest rate Mr and Mrs S are paying on their main mortgage is 4.97% and on the additional borrowing it is 5.97%.

My final decision

My final decision is that Nationwide Building Society should:

- Pay Mr and Mrs S the difference between what they have paid to their mortgage and what they would have paid had they had a fixed interest rate of 3.39% from 1 January 2023 until date of settlement.

- Pay interest at 8% simple per year on the above amounts from the date each payment was made to date of settlement. If Nationwide considers that it's required by HM Revenue & Customs to deduct income tax from that interest, it should tell Mr and Mrs S how much it's taken off. It should also give Mr and Mrs S a tax deduction certificate if they ask for one, so they can reclaim the tax from HM Revenue & Customs if appropriate.

- Pay Mr and Mrs S upfront the difference between what they will pay on their mortgage and what they would have paid had they had a fixed interest rate of 3.39% from date of settlement until 1 January 2026.

- Pay Mr and Mrs S £400.

- Deduct £819 from the total amount.

Under the rules of the Financial Ombudsman Service, I’m required to ask Mrs S and Mr S to accept or reject my decision before 21 June 2024.

Ken Rose
Ombudsman